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TAGS: EINV ECON EFIN PGOV OPIC USTR CO
SUBJECT: INVESTMENT HITS NEW HIGH IN 2008, BUT 2009 OUTLOOK UNCERTAIN.

REF: (A) 07 BOGOTA 4157; (B) 07 BOGOTA 2120; (C) 07 BOGOTA 4234

¶1. (SBU) SUMMARY: Colombia's success in improving security conditions and its investment climate has attracted record levels of Foreign Direct Investment (FDI) over the last six years. According to preliminary data, FDI reached a new high of USD 10.5 billion in 2008 based on flows spread across various sectors. The outlook for 2009 is not promising due to the global crisis. Nonetheless, Colombia will continue to incentivize FDI through instruments such as Free Trade Zones, bilateral investment agreements, and Legal Stability Contracts. END SUMMARY.

You Reap What You Sow

¶2. (U) Under President Uribe, the GOC has placed top priority on attracting FDI to fuel sustained economic growth and job creation. In the 2006 National Development Plan, the GOC set a goal of averaging USD 4 billion per year in FDI through 2010--slightly above the previous 10-year average of USD 3.3 billion. However, continued improvements in security conditions, strong commodity prices and GOC steps to foster a business-friendly environment have spurred investment to levels consistently higher than the official target.

Companies Continue to Invest and Reinvest

¶3. (SBU) Following strong FDI inflows in 2006 (USD 6.7 billion) and 2007 (USD 7.5 billion), preliminary estimates from the Colombian Central Bank indicate 2008 inflows will approach or slightly exceed USD 10.5 billion. This would amount to a record level, exceeding the USD 10.25 billion received in 2005 but considered an outlier because of the USD 7.8 billion purchase of beverage giant Bavaria by South African conglomerate SAB Miller. Significantly, the 2008 total is not the result of a single large deal, but rather strong investment across multiple sectors. Driven by high oil prices in the first semester of 2008, the hydrocarbons sector captured 21 percent of all FDI, with USD 2.7 billion in inflows-a 5 percent increase over 2007. The mining sector ranked second with USD 1.7 billion, followed by the financial, manufacturing, retail and communications sectors, all of which registered increased flows.

¶4. (SBU) While 2007 ushered in a number of new international companies to the Colombian market, much of the FDI in 2008 stemmed from existing companies seeking to expand their current operations. Examples include Alabama-based Drummond Coal, which announced plans

to invest USD 1.5 billion over three years to develop coal deposits in northern Cesar Department; Spanish CEPSA, which acquired an oil production block for USD 920 million; and Brazilian steelmaker Gerdau which invested USD 59 million in the acquisition of a Colombian coke company. Also noteworthy, Colombian Central Bank figures indicate that foreign companies reinvested USD 1.2 billion in 2008 profits in Colombia, almost double the 2002-2006 average of USD 655 million, though lower than the record USD 1.8 billion in ¶2007.

New Tools for New Challenges

¶5. (SBU) While rising commodity prices and the more secure and stable business environment were the primary contributing factors for new FDI over the last six years, many local experts fear that deteriorating global economic conditions will bring investment gains to a halt. According to Juan Carlos Gonzalez, Vice-President for Foreign Investment at Colombia's export and investment promotion agency, ProExport, the GOC is preparing to more aggressively promote a series of on-going programs, legal mechanisms and negotiations to offset potential reductions in foreign capital investments.

¶6. (SBU) The first of these tools are the modernized and one-company Free Trade Zones (FTZs), which Minister of Commerce Luis Guillermo Plata has characterized as "the starting point to consolidate the rebirth of investment in the country". The FTZs offer a series of significant tax incentives for new investors (ref A) that have attracted USD 5.2 billion in investment commitments over the next five years. As one recent example of the FTZs' magnetic pull for investors, PepsiCo was granted FTZ status for its new production facility in exchange for USD 42 million in investment and a commitment to create approximately 200 new jobs.

¶7. (SBU) The two other mechanisms through which Colombia expects to maintain FDI are the negotiation of Bilateral Investment Treaties (BITs) and investment chapters in its pending free trade agreements as well as the promotion of 'Legal Stability Contracts' (LSC) which guarantee the continuation of existing investment terms for foreign companies. In 2008 Colombia negotiated investment chapters in the free trade agreements it signed with Canada (ref B) and the European Free Trade Association (ref C), while signing individual BITs with Chile, Peru, Switzerland, Spain and China. The GOC concluded a record eight LSCs in 2008, surpassing the six total agreements signed since the mechanism's creation in 2006.

Comment: 2009 and Beyond

¶8. (SBU) According to Gonzalez, the GOC remains committed to its goal of attracting USD 12 billion in FDI by 2012. To do so, he says the GOC will aggressively market its FTZs, investment agreements, and LSCs, as well as promote specific sectors, chosen from the Ministry of Commerce's 'Productive Transformation Strategy', including software and business Process Outsourcing, cosmetics, 'healthcare tourism', hygiene, auto parts, energy, textiles and graphic industries. While attempting to pick "winning industries" is often counter-productive, effective promotion of investment incentives as part of a cohesive public strategy will be key to limiting the drop-of in FDI amid lower commodity prices and tougher global economic conditions.

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